



# The Real Estate TRENDS

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

## REAL ESTATE ACTIVITY

This year will probably be the best year in history for real estate brokers. Indications are that total nonfarm real estate sales will run right at 4,850,000 for the year. This is a healthy increase over the estimated 4,350,000 sales in 1954, and within 4% of the alltime high estimate of 5,062,000 in 1946. Dollar volume of commissions will naturally be much higher than in 1946 because sales prices have advanced some 40% above the average for that year.

These figures are estimates. We know of no way to gather the information on all nonfarm real estate sales in the country. What we do, therefore, is collect sales data from 100 cities - some large like New York, Chicago, and Los Angeles, some small like Anderson, Indiana; Binghamton, New York; and Somerville, Massachusetts. This group of 100 cities contains some with very high rates of activity - Flint, Tucson, and Oklahoma City; and some with very low rates - Jersey City, Waterbury, and Brooklyn. From the data received from these 100 cities we compute an average rate of sales per 10,000 families per month and apply this rate to the total number of estimated nonfarm families in the country.

Nationally, real estate activity ran around 80-85 transfers per 10,000 families per month in 1954, and about 90-95 transfers per 10,000 families per month in 1955. This indicates about 12% more sales in 1955 than in 1954.

These rates gave us an index reading of 6.7 points above normal for last year, while the index this year has varied from 15 to 19 points above normal. Its current level is 17 points above normal.

We expect no sharp or sudden changes in real estate activity for the remainder of the year. As we pointed out last month, any change will be small and the lending situation indicates that the change will be down, but if there is a drop it won't amount to much.

## REAL ESTATE MORTGAGE ACTIVITY

During the first half of 1955 our mortgage activity index dropped from a reading of 180.3 to 159.7. Since then it has stabilized at about 160. The September level was 162.3. This index is

based on mortgage recordings and probably lags behind the actual date of loan by 60 days.

We are all familiar with the recent forces that have acted to restrict credit and thereby whittle down the volume of mortgages. Most potent has been the voluntary restraint applied by the lenders themselves. Measures by the FHA-VA will have a delayed effect because of the large number of prior commitments. The clamp-down by the Home Loan Bank on member borrowings was another stringent measure immediate in its impact. Nevertheless, mortgage activity is still at a high level and is expected to stay there. The short-term outlook is not discouraging and the long-term one is bright.

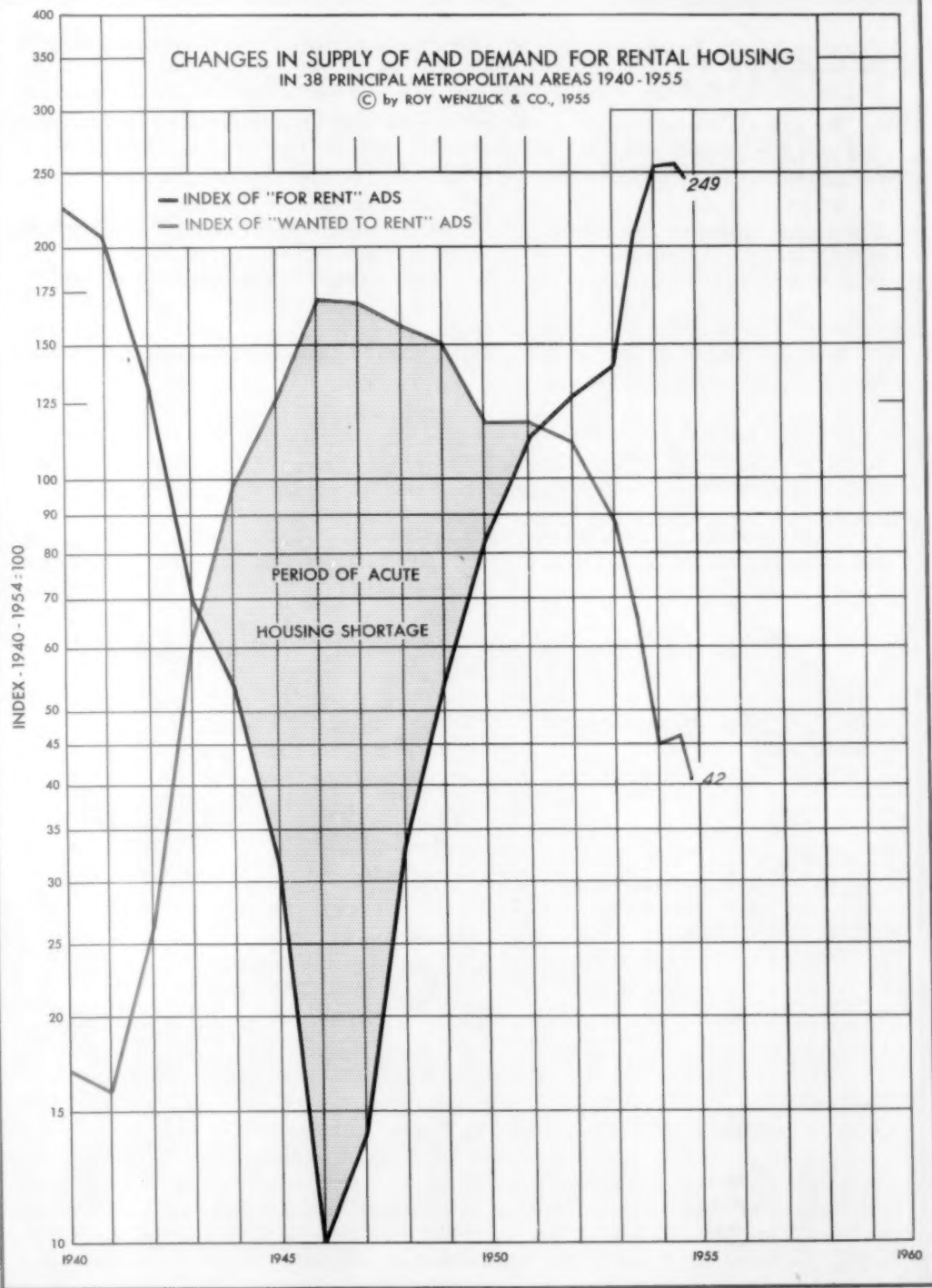
Interest rates continue to move up slowly - by this we mean the actual rate the borrower pays after all discounts and fees are paid. The average published rate - or the rate shown on the loan - continues to drift downward because of the very large proportion of  $4\frac{1}{2}\%$  loans. The table shown below is made up of the average rates of recorded loans in 12 principal cities. These rates are taken from the face of the mortgage and, therefore, do not reflect the points the borrower had to pay to get the loan. In September, 43% of these loans carried a rate of  $4\frac{1}{2}\%$ , 27% were made at 5%, and 23% were made at 6%. The other 7% of the total were scattered among rates ranging from 4% to 8%.

#### AVERAGE INTEREST RATE OF RECORDED MORTGAGES IN 12 MAJOR CITIES OF THE UNITED STATES

Mar. '53	5.007%	Nov. '54	5.063%
		Dec. '54	5.033
Jan. '54	5.187	Jan. '55	5.045
Feb. '54	5.240	Feb. '55	5.070
Mar. '54	5.196	Mar. '55	5.087
Apr. '54	5.173	Apr. '55	5.079
May '54	5.151	May '55	5.044
June '54	5.114	June '55	5.052
July '54	5.089	July '55	5.050
Aug. '54	5.082	Aug. '55	5.049
Sept. '54	5.107	Sept. '55	5.043
Oct. '54	5.092		

#### RESIDENTIAL CONSTRUCTION ACTIVITY

The volume of nonfarm home building for the first 9 months of this year is well ahead of the same period of last year. Through September, there were 1,033,500 starts, a 13% rise over the 915,500 starts in the same period of 1954. On a monthly basis, both August and September 1955 were below their 1954 levels. An average of 88,800 starts per month for October-November-December would send this year's total to the 1,300,000 level and make it the second best on record.



## REAL ESTATE SALES PRICE INDEX

May the selling price on the average house in a well-maintained community stood at \$14,795. In September it was up almost \$100 to \$14,890.

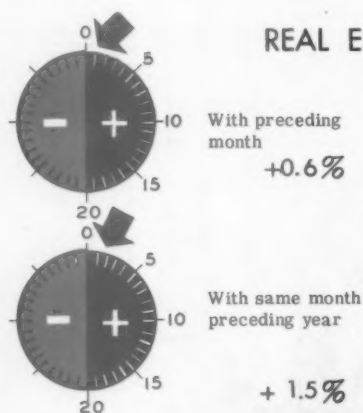
Our real estate sales price indicator has been remarkably stable for the last year or so. Changes have been slow, but in the last few months prices have been drifting upward. Last

## VACANCY IN RENTAL HOUSING

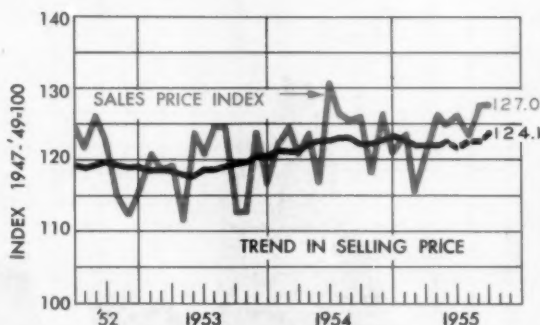
The rising vacancy in rental housing seems to have been halted, at least temporarily. The chart on page 479 shows the index of the number of "For rent" and "Wanted to rent" ads in 38 principal cities, from 1940 to the present. Prior to 1954, these ad counts were made on the second Sunday in May. From 1954 on they were made on the second Sunday in May and October.

In recent years the supply of vacant rental housing has been rising rapidly, while the number of families seeking rental quarters has been in a precipitous drop. In 1955 the steep rise in vacant units has leveled off.

This chart has not been adjusted for the tremendous population change that has occurred in the cities being studied. This makes a considerable difference (cont. on page 483)

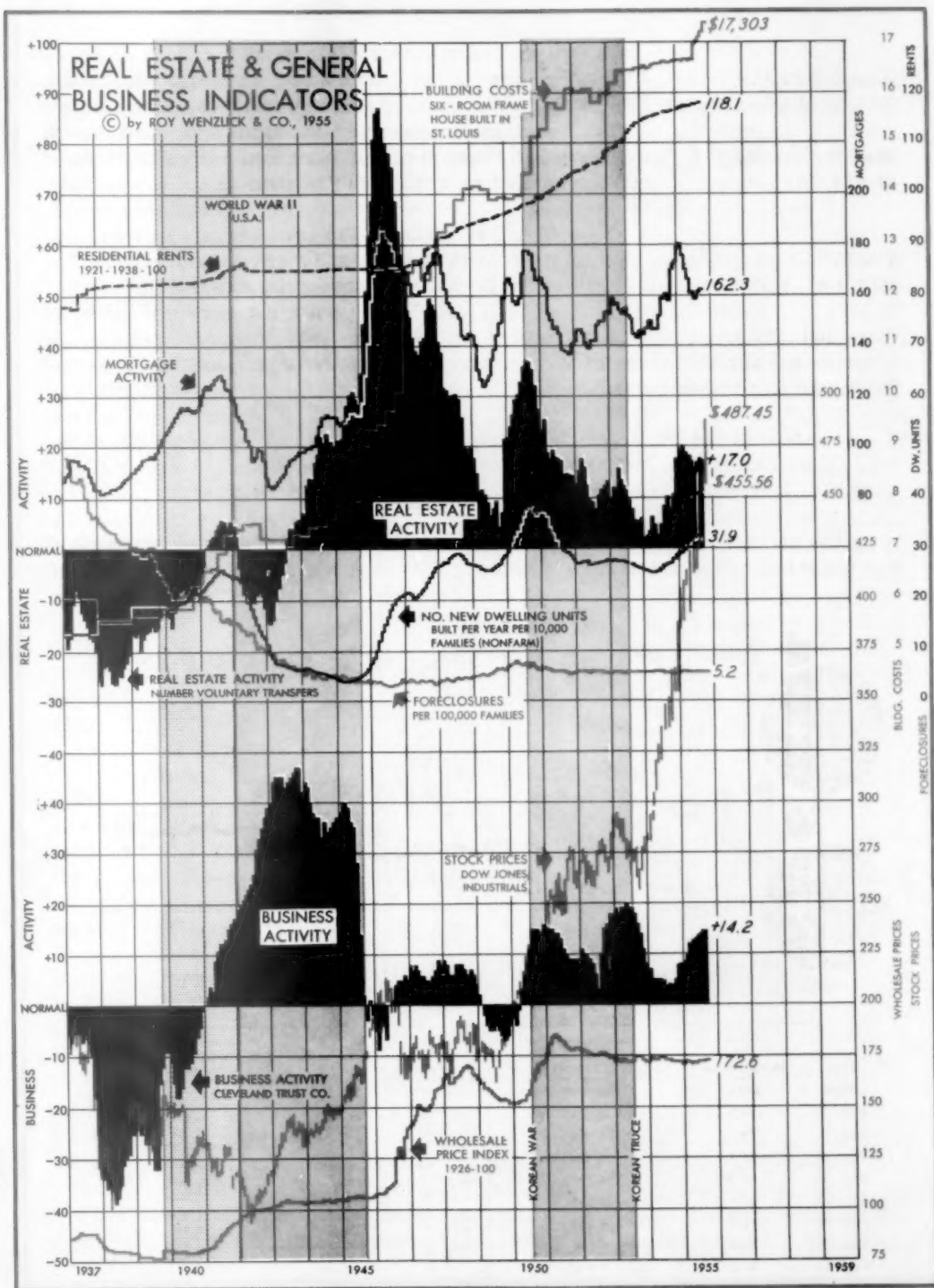


## REAL ESTATE SALES PRICE COMPARISONS (September 1955)



Date	Trend in selling price	Probable selling price of a house that sold for \$12,000 in 1947-49 period	Date	Trend in selling price	Probable selling price of a house that sold for \$12,000 in 1947-49 period
1947-49	100.0	\$12,000	Oct. '48	104.5	\$12,540
1913	40.1	4,812	Jan. '53	118.6	14,230
1918	34.1	4,092	May '53	117.6	14,110
Mar. '29	73.9	8,868	Oct. '53	119.7	14,360
May '32	34.8	4,176	Jan. '54	120.9	14,510
Apr. '34	44.8	5,376	May '54	122.6	14,710
July '37	40.1	4,812	Oct. '54	122.3	14,680
Apr. '38	42.8	5,136	Jan. '55	122.9	14,750
Mar. '41	40.1	4,812	May '55	123.3	14,795
			Aug. '55	123.4	14,810
			Sept. '55	124.1*	14,890*

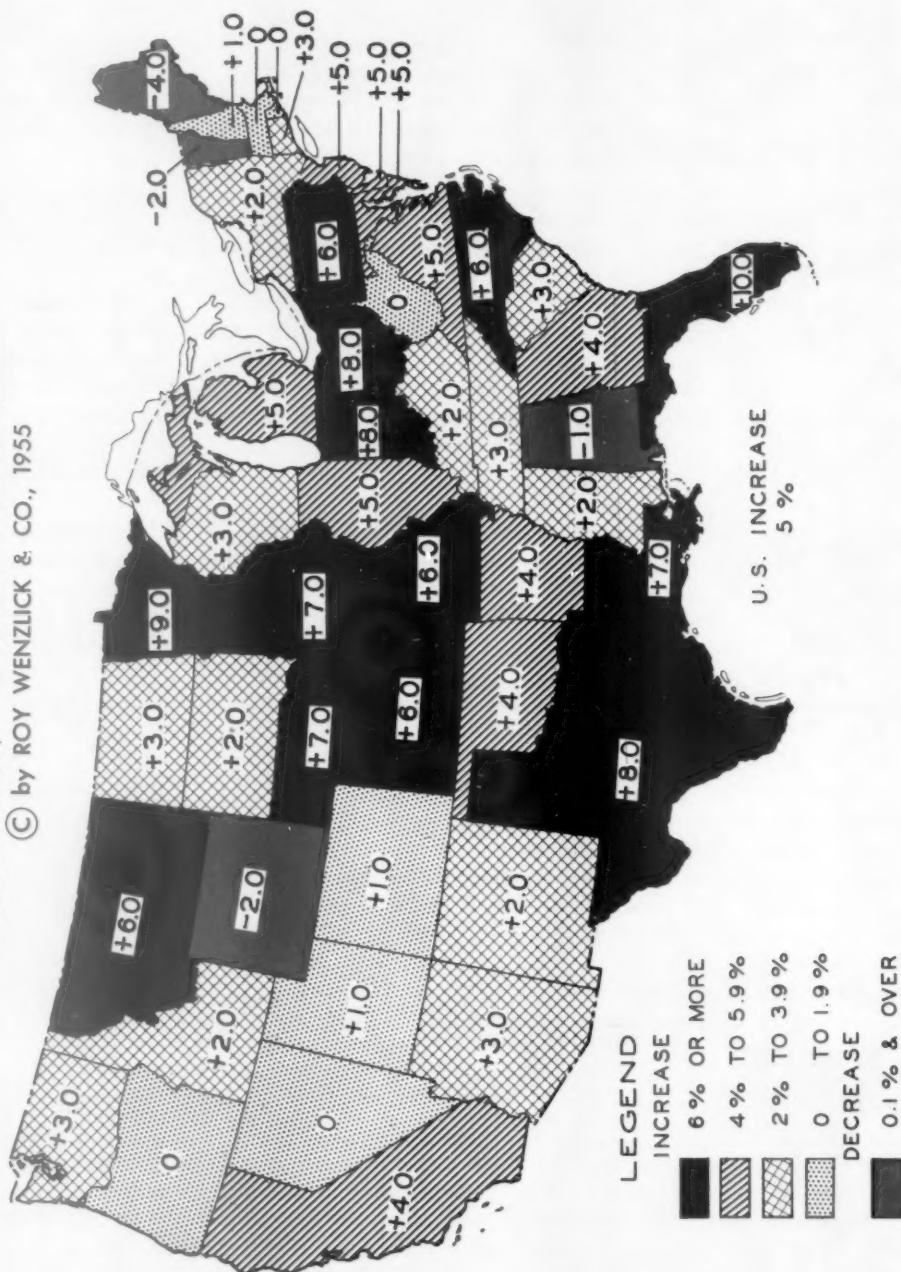
\*Preliminary





# CHANGES IN DOLLAR VALUE OF FARM LANDS PERCENTAGES, JULY 1954 TO JULY 1955

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(cont. from page 480)

when comparing the present with 1940, for example. At present the number of "For rent" ads is running about 15% ahead of the number appearing in 1940. Since there was a pronounced vacancy in rented units in 1940, you might think that the situation was even worse today. However, side by side with this 15% increase in the number of "For rent" ads has come a 60% increase in the number of families living in the 38 metropolitan areas making up this chart.

Some of the more interesting results from individual cities were: Louisville, Kentucky, vacancy has been dropping for 2 years and "For rent" ad count is below 1940 level; Dallas, Texas, vacancy evidently still rising, "For rent" ad counts 50% above 1940 level; Dayton, Ohio, number of vacant units apparently at alltime high and ad count 80% above 1940 level; Jacksonville, Florida, vacancy apparently high and "For rent" ads three times as high as 1940 level. In Memphis and Nashville, Tennessee, and San Antonio, Texas, "For rent" ad counts were still climbing and were twice as high as the 1940 level.

While these ad counts do present an interesting picture, and in some cases an alarming one, we are the first to point out that they do not necessarily indicate a dangerous situation. A housing surplus is undoubtedly being built up in some areas. In those areas we would normally expect "For rent" ads to be higher than in areas where the supply of housing is still tight. In those areas that are becoming overbuilt, the rising number of vacant rental units is a very sensitive sign that a surplus is developing. However, it is in itself no indication of how serious the surplus will be. Further investigation must be made to find out where the vacancies are, how much they rent for, and what type of units they are.

For example, in St. Louis, "For rent" ads are at their postwar peak, and rising. However, the largest number of the vacant units are small (2-3 rooms) apartments in older neighborhoods. There is no appreciable vacancy in the more desirable apartments, and until there is we can see no threat to home building in the rising vacancy level. Nevertheless, the index on "For rent" ads points out to us that a vacancy condition is developing, and while it is not yet serious, it alerts us in time to take steps to prevent it from becoming serious. It's the same in other cities. If your "For rent" ads are climbing, it will be a good idea to analyze your local situation to find out just how badly off you really are.

#### FARM LAND VALUES

A great deal of recent comment in the press and on the air has pointed out the fact that farm income has been falling, and for that reason the Administration's flexible price support plan is not working. The next step recommended by many of these so-called farm experts is that 90% parity be restored. This is a misleading statement because the flexible price support plan goes into effect for the first time on the 1955 crops. Naturally, most of the 1955 crops did not move into the market soon enough for the income from them to be reflected in the late summer figures released by the Department of Agriculture.

There is another aspect of falling farm income that we mentioned in our Agricultural Bulletin of May 18, 1955. The simple statement that farm income has dropped does not consider the fact that inventory losses and gains are not included in this calculation. For example, realized farm net income dropped 10% in 1954. However, this figure does not consider the change in inventory of farm products. In 1953, a big part of farm income came from farmers liquidating large holdings of hogs and corn. In 1954, farmers actually sold less than they produced, thereby building up inventories in crops and livestock. If these inventory changes are included in the calculation of farm net income, the 1954 drop was only 1%.

Furthermore, when you consider that farm population dropped  $3\frac{1}{2}\%$  from 1953 to 1954, this 1% drop in income is all the less significant. On a per-capita basis, farm income actually rose in 1954 over 1953.

Still another side of the farm income picture that is all too seldom mentioned is the fact that mechanization of farm labor has given many farmers more free time to do "off-the-farm" work. Many farmers have part-time jobs in nearby towns, and their incomes from farm operations alone are not true indicators of their economic well-being.

The farmers themselves are letting everyone know their frame of mind, although indirectly. Their viewpoint toward their past earnings and their expectations of future earnings are such that they are buying more land. They are buying land at such a rate that the average value per acre is up 5% in the last year on a national basis. In the Midwest, average values per acre have risen between 6% and 9% during the July 1954-July 1955 period. If you will look at the map on page 482 you will see these increases on a State-by-State basis. If you want to refer to earlier figures, look at the map on page 287 of your June 1955 Trends Bulletin.

We are going to continue to hear a lot of talk about the plight of the farmer. After all, 1956 is an election year, and both parties want the farm vote, but you can remember this - most of the talk about a farm depression, and talk about the poor position of the farmer, is pure and simple vote-fishing.